

**Orchard Place and Orchard Place Foundation
Des Moines, Iowa**

CONSOLIDATED FINANCIAL REPORT

June 30, 2012

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DENMAN

& Company, LLP

Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Orchard Place and Orchard Place Foundation
Des Moines, Iowa

We have audited the accompanying consolidated statement of financial position of Orchard Place and Orchard Place Foundation as of June 30, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Orchard Place and Orchard Place Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orchard Place and Orchard Place Foundation as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2012 on our consideration of Orchard Place and Orchard Place Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements. The supplementary information, including the accompanying schedule of expenditures of federal awards required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 22, 2012

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidated Statement of Financial Position

June 30, 2012

Assets

Current assets:	
Cash	\$ 3,254,085
Receivables:	
Patient receivables, net of allowance for contractual adjustments and uncollectibles of \$605,000	1,783,747
Contributions receivable, net of allowance for uncollectibles of \$960	8,641
Total receivables	<u>1,792,388</u>
Prepaid expenses and inventories	53,643
Total current assets	<u>5,100,116</u>
Interest in the net assets of the Community Foundation of Greater Des Moines	5,072,396
Property and equipment:	
Land and land improvements	1,732,210
Buildings and leasehold improvements	11,400,492
Equipment and furniture	1,453,327
Computer hardware and software	591,829
Vehicles	168,960
Total property and equipment	<u>15,346,818</u>
Accumulated depreciation and amortization	8,471,123
Net property and equipment	<u>6,875,695</u>
Beneficial interest in assets held by the Community Foundation of Greater Des Moines	49,397
Assets held in trust by others	<u>255,000</u>
Total assets	<u>\$ 17,352,604</u>

Liabilities and Net Assets

Current liabilities:	
Line of credit	\$ —
Current maturities of capital lease obligations	15,729
Accounts payable and accrued expenses	1,186,454
Gift annuity liabilities	16,490
Total current liabilities	<u>1,218,673</u>
Capital lease obligations	49,370
Total liabilities	<u>1,268,043</u>
Net assets:	
Unrestricted, including \$6,810,596 net investment in plant	14,504,035
Temporarily restricted	959,935
Permanently restricted	620,591
Total net assets	<u>16,084,561</u>
Commitments and contingencies	—
Total liabilities and net assets	<u>\$ 17,352,604</u>

See accompanying notes to the consolidated financial statements.

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidated Statement of Activities

Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenue and support:				
Net patient service revenue, contracts and grants	\$ 16,153,859	\$ —	\$ —	\$ 16,153,859
Public support	1,125,807	—	—	1,125,807
Contributions, memorials, and fundraisers, net	197,300	427,433	5,145	629,878
Other revenue	194,546	—	—	194,546
Total operating revenue and support	17,671,512	427,433	5,145	18,104,090
Net assets released from restrictions - satisfaction of program and time restrictions	406,922	(406,922)	—	—
Total operating revenue, support and net asset transfers	18,078,434	20,511	5,145	18,104,090
Operating expenses:				
Program services:				
Orchard Place Campus	7,238,135	—	—	7,238,135
PACE Juvenile Center	2,260,730	—	—	2,260,730
Child Guidance Center	7,001,476	—	—	7,001,476
Total program services	16,500,341	—	—	16,500,341
Administrative services	1,323,570	—	—	1,323,570
Fundraising and marketing	556,151	—	—	556,151
Total operating expenses	18,380,062	—	—	18,380,062
Change in net assets from operating activities	(301,628)	20,511	5,145	(275,972)
Nonoperating activities:				
Investment income, net				
Interest and dividends	82,973	15,760	—	98,733
Realized gains (losses)	104,545	20,149	—	124,694
Unrealized gains (losses)	(215,242)	(40,961)	—	(256,203)
Investment expenses	(17,903)	(2,092)	—	(19,995)
Total investment income, net	(45,627)	(7,144)	—	(52,771)
Change in the value of split interest agreements	(2,114)	9,000	—	6,886
Other nonoperating income, net	5,400	—	—	5,400
Net assets released from restrictions - property and equipment	129,508	(129,508)	—	—
Change in net assets from nonoperating activities	87,167	(127,652)	—	(40,485)
Change in net assets	(214,461)	(107,141)	5,145	(316,457)
Net assets at beginning of year	14,718,496	1,067,076	615,446	16,401,018
Net assets at end of year	\$ 14,504,035	\$ 959,935	\$ 620,591	\$ 16,084,561

See accompanying notes to the consolidated financial statements.

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidated Statement of Functional Expenses

Year ended June 30, 2012

	Orchard Place Campus	PACE Juvenile Center	Child Guidance Center	Administrative Services	Fundraising and Marketing	Total Expenses
Salaries	\$ 4,558,300	\$ 1,504,159	\$ 4,483,449	\$ 777,933	\$ 330,672	\$ 11,654,513
Employee benefits	720,607	258,799	685,285	109,461	41,018	1,815,170
Payroll taxes and insurance	390,907	128,052	376,271	62,939	27,696	985,865
Total payroll expenses	5,669,814	1,891,010	5,545,005	950,333	399,386	14,455,548
Professional fees and contract labor	361,954	36,117	190,476	46,659	33,400	668,606
Recruiting	22,119	3,387	12,089	22,565	1,044	61,204
Accreditation	192	—	—	7,185	—	7,377
Information technology	12,830	8,636	30,504	112,074	7,552	171,596
Food	265,654	6,681	2,534	68	—	274,937
Office supplies	11,540	4,320	19,128	4,694	2,169	41,851
Medical and psychological supplies	10,510	4,361	17,814	—	—	32,685
Telephone	20,634	20,425	36,545	11,317	980	89,901
Postage	4,190	871	20,528	5,523	2,192	33,304
Building/grounds maint. and supplies	95,444	6,826	15,952	1,263	—	119,485
Cleaning	51,181	26,668	20,460	—	—	98,309
Utilities	147,405	43,018	35,189	—	—	225,612
Rent and security services	29,353	50	36,565	65,820	12,000	143,788
General insurance	56,946	18,199	37,673	8,553	1,500	122,871
Interest	—	—	—	5,119	—	5,119
Educational assistance	—	—	—	6,393	—	6,393
Printing and publications	504	594	21,630	96	29,649	52,473
Transportation and travel	18,742	43,449	103,777	11,546	3,833	181,347
Staff development and recognition	15,375	2,820	54,326	6,510	645	79,676
Conference hosting	—	—	88,102	—	125	88,227
Contracted trainings	—	—	174,688	—	—	174,688
Training/home consulting supplies	82	780	42,642	—	—	43,504
Child care incentives and stipends	—	—	248,019	—	—	248,019
Area office services	—	—	63,805	—	—	63,805
Business meetings	68	1,066	815	1,408	1,615	4,972
Dues and subscriptions	651	3,025	424	157	261	4,518
Client expenses	8,490	3,989	18,588	—	1,505	32,572
Recreation	25,877	5,846	—	—	—	31,723
Bad debt expense	53,832	5,604	32,322	—	—	91,758
Work studies payments	9,413	—	—	—	—	9,413
Memberships	—	1,200	12,186	1,241	2,083	16,710
Equipment	10,963	3,981	1,999	—	—	16,943
Equipment maintenance	51,079	18,186	19,392	136	—	88,793
Copier contracts	3,442	592	10,042	935	4,711	19,722
Advertising and marketing	1,348	1,116	34,555	250	26,673	63,942
Planned giving expenses	—	—	—	—	10,886	10,886
Other fundraising expenses	—	—	—	—	12,106	12,106
Miscellaneous	411	568	1,389	863	920	4,151
Depreciation and amortization	278,092	97,345	52,313	52,862	916	481,528
Total operating expenses	\$ <u>7,238,135</u>	\$ <u>2,260,730</u>	\$ <u>7,001,476</u>	\$ <u>1,323,570</u>	\$ <u>556,151</u>	\$ <u>18,380,062</u>

See accompanying notes to the consolidated financial statements.

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidated Statement of Cash Flows

Year ended June 30, 2012

Cash flows from operating activities:	
Change in net assets	\$ (316,457)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	481,528
Change in assets held by Community Foundation of Greater Des Moines, net of transfers and distributions	50,904
Change in the value of assets held in trust by others	(9,000)
Non cash contributions	(50,230)
Change in:	
Patient receivables, net	(64,342)
Contributions receivable, net	2,227
Prepaid expenses and inventories	2,311
Accounts payable, accrued expenses, and gift annuity liabilities	143,874
Net cash provided by operating activities	<u>240,815</u>
Cash flows from investing activities:	
Purchase of property and equipment	(177,469)
Proceeds from sale of investments	50,230
Distributions received from Community Foundation of Greater Des Moines	527,795
Net assets transferred to Community Foundation of Greater Des Moines	(45,145)
Net cash provided by investing activities	<u>355,411</u>
Cash flows from financing activities:	
Net payments on line of credit	—
Payments on capital lease agreements	(14,669)
Net cash used in financing activities	<u>(14,669)</u>
Net increase in cash	581,557
Cash at beginning of year	<u>2,672,528</u>
Cash at end of year	<u>\$ 3,254,085</u>
Supplemental schedule of cash flow information:	
Cash paid for interest	<u>\$ 5,119</u>
Non cash contributions	<u>\$ 50,230</u>

See accompanying notes to the consolidated financial statements.

Orchard Place and Orchard Place Foundation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The consolidated financial statements include Orchard Place (the Organization) and Orchard Place Foundation (the Foundation), both private non-profit organizations organized under the laws of the State of Iowa. The Organization was founded in 1886 and is accredited through The Joint Commission. It provides a continuum of services to children with mental and behavioral health issues through its three divisions:

- Orchard Place Campus: This division provides 24-hour inpatient care to children needing intensive treatment related to a mental illness, and it is accredited as a Psychiatric Medical Institute for Children. It offers an individualized treatment program including individual and family psychotherapy, social skills building, and life skills training.
- PACE Juvenile Center: This division is designed to meet the needs of at-risk youth who have been unable to attain success in their school or community. It serves these youth and families by providing community-based services, which develop social, academic, and functional life skills, allowing for positive growth of youth and their families.
- Child Guidance Center: This division promotes community mental health through multiple professional services to children and their families and to those persons and organizations influential in the emotional development and well being of children. It is accredited as a Community Mental Health Center. Outpatient services are provided by a multi-disciplined staff in the fields of child psychiatry, clinical psychology, clinical social work, nursing, and child development. Child care resource and referral services are also offered.

The Foundation exists primarily for the benefit of the Organization in carrying out its charitable purposes through the receipt and management of gifts, grants and special events revenue as well as organizing its marketing efforts.

The Organization and the Foundation are exempt from income taxes under Section 501(a) of the Internal Revenue Code as nonprofit corporations as described in Section 501(c)(3). All significant intercompany transactions between the Organization and the Foundation have been eliminated.

The Organization and the Foundation have adopted the authoritative guidance issued by the Financial Accounting Standards Board on accounting for uncertainty in income taxes. Management believes it has no material uncertain tax positions and, accordingly, no income tax effects are recognized. The Organization and the Foundation's remaining open years subject to tax examination include the years ended June 30, 2009 through 2012.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Orchard Place and Orchard Place Foundation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Unrestricted net assets – net assets that are not subject to donor-imposed stipulations;
- Temporarily restricted net assets – net assets that are subject to donor-imposed stipulations that may or will be met either by the actions of the Organization and/or the passage of time; and
- Permanently restricted net assets – net assets that are subject to donor-imposed stipulations that they be maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Donated Services

The value of donated services is not recognized in the accompanying consolidated financial statements because no objective basis is available to measure the value of such services. It should be noted that a number of volunteers donated time to fundraising and mentoring services.

Assets Held at the Community Foundation of Greater Des Moines

Assets held at the Community Foundation of Greater Des Moines are carried at fair value, with gains and losses resulting from market fluctuations recognized in the period in which the fluctuations occur. Investment income is reported as an increase or decrease in unrestricted net assets, unless the use of the assets is restricted by the donor.

Endowments

The Foundation's endowments, which are included in assets held at the Community Foundation of Greater Des Moines in the consolidated financial statements, consist of six donor-restricted individual funds established for a variety of purposes. The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Orchard Place and Orchard Place Foundation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Foundation and the Organization and the donor-restricted endowment fund; (3) general economic conditions; (4) the expected total return from income and appreciation of investments; (5) other resources of the Foundation and the Organization; and (6) the investment policies of the Foundation.

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if received by gift, are carried at fair value on the date received. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Gifts of long-lived assets such as land, buildings, or equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Assets Held in Trust by Others

Assets held in trust by others are carried at fair value and include \$255,000 in a charitable remainder trust. Changes in value resulting from market fluctuations and earnings or losses are recognized in the period in which the changes occur, in the net asset class stipulated by the donor.

Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, if determinable, and adjusted in future periods as final settlements are determined.

NOTE 2 BUSINESS AND CREDIT CONCENTRATIONS

The Organization provides services in the central Iowa area and received approximately \$12,691,000 from the Department of Human Services (the Department) during the year ended June 30, 2012. Services provided are primarily through per diem and purchase of service agreements. At June 30, 2012, the Organization had accounts receivable from the Department of approximately \$1,244,000. Future agreements with the Department are generally dependent upon appropriations by the state legislature.

Orchard Place and Orchard Place Foundation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2012 consisted of unconditional promises expected to be collected in less than one year of \$7,101 and from one to five years of \$2,500. An allowance for doubtful accounts of \$960 has been recorded at June 30, 2012.

NOTE 4 ASSETS HELD AT THE COMMUNITY FOUNDATION OF GREATER DES MOINES

In 2007, the Foundation transferred assets to the Community Foundation of Greater Des Moines (the Community Foundation), specifying itself as beneficiary, under two types of agreements.

Amounts reported in the consolidated statement of financial position as interest in the net assets of the Community Foundation of Greater Des Moines represent the net cumulative transfers by the Foundation to the Community Foundation, as well as earnings net of disbursements. Distributions are to be made in accordance with the "spending formula" adopted by the Community Foundation's Board of Directors, currently 5% of the fund balance as of December 31st of the previous year. Distributions in excess of net income may be made in order to make a distribution in accordance with the spending formula. The Foundation may request distributions of net income in excess of the spending formula distributions, administrative fees and direct expenses. The Community Foundation's Board of Directors shall make additional distributions in excess of amounts determined under the spending formula, up to 100% of the fund, pursuant to requests by the Foundation. The Community Foundation has been granted variance power over the assets, if the Foundation ceases to be a qualified charitable organization or proposes to dissolve.

Amounts reported in the consolidated statement of financial position as beneficial interest in assets held by the Community Foundation of Greater Des Moines represent the net cumulative transfers by the Foundation to the Community Foundation, as well as earnings net of disbursements. These funds were established under the Endow Iowa provisions of the Code of Iowa. Distributions of up to but not exceeding 5% of the fund balance as of December 31st of the previous year may be made each year. Net income in excess of the distributions, administrative fees and direct expenses will be added to the fund principal. The Community Foundation has been granted variance power over the assets, if the Foundation ceases to be a qualified charitable organization or proposes to dissolve.

The assets transferred to the Community Foundation are invested in a pooled endowment at the direction of the Community Foundation's Investment Committee. The investment allocation at June 30, 2012 was as follows:

Domestic equity	27.0%
International equity	23.8
Fixed income	20.5
Cash composite	1.6
Hedge fund of funds	12.8
Real assets	7.1
Private equity	<u>7.2</u>
Total	<u>100.0%</u>

Orchard Place and Orchard Place Foundation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 FAIR VALUE MEASUREMENTS

The Foundation accounts for its assets held at the Community Foundation of Greater Des Moines and assets held in trust by others at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in its principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. The Foundation has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. These levels are as follows:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques. The fair value of the investment is based on a combination of audited financial statements of the investees and monthly or quarterly statements received from investees.

Assets held by the Community Foundation of Greater Des Moines consist of pooled funds invested at the Community Foundation. The Foundation holds a share of the pooled funds and not direct ownership of the underlying investments. Although the pooled funds, as noted in the previous table, include equity, fixed income, and other marketable securities, the pool itself is not a publicly traded instrument. Management estimates the fair value of its pooled funds at the balance sheet date based on its relative ownership investment in the pool. All funds held at the Community Foundation of Greater Des Moines as well as assets held in trust by others are considered Level 3 investments since there is not direct ownership of the underlying investments.

The following table provides a summary of changes in fair value of the Foundation's Level 3 funds for the year ended June 30, 2012:

Balance at July 1, 2011	\$ 5,901,347
Interest and dividends	98,733
Realized gains (losses)	124,695
Unrealized gains (losses)	(256,203)
Investment expenses	(18,129)
Change in the value of trust assets	9,000
Contributions to the pooled funds	45,145
Distributions from the pooled funds	(527,795)
Balance at June 30, 2012	<u>\$5,376,793</u>

Orchard Place and Orchard Place Foundation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 ENDOWMENTS

Endowment funds are included in assets held by the Community Foundation of Greater Des Moines. The change in endowment net assets was as follows for the year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Balance at beginning of year	\$ (3,772)	\$ 169,592	\$ 615,446	\$ 781,266
Investment return:				
Investment income	887	13,339	—	14,226
Investment expenses	(142)	(1,771)	—	(1,913)
Net appreciation (realized and unrealized)	<u>(950)</u>	<u>(17,651)</u>	<u>—</u>	<u>(18,601)</u>
Total investment return	<u>(205)</u>	<u>(6,083)</u>	<u>—</u>	<u>(6,288)</u>
Contributions	—	—	5,145	5,145
Expenditures	<u>(2,421)</u>	<u>(25,374)</u>	<u>—</u>	<u>(27,795)</u>
Balance at end of year	<u>\$ (6,398)</u>	<u>\$ 138,135</u>	<u>\$ 620,591</u>	<u>\$ 752,328</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$6,398 at June 30, 2012. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

NOTE 7 LINE OF CREDIT

At June 30, 2012, the Organization had a \$1 million line of credit with Bankers Trust Company (the Bank), maturing November 26, 2012. Interest is payable monthly at the three month London Interbank Offered Rate (LIBOR) plus 2.75 percent, which totaled 3.22 percent at June 30, 2012. The Organization had no borrowings outstanding under this line of credit at June 30, 2012.

The line of credit is guaranteed by the Foundation. The guarantee is unsecured; however, the Foundation is not allowed to pledge or encumber any of its assets except as disclosed and consented to by the Bank. The debt is secured by a first security interest in all the Organization's assets including but not limited to accounts receivable, inventory, equipment, machinery, and general intangibles. The line of credit agreement contains a number of covenants regarding operations of the Organization. The Organization is in substantial compliance with those covenants at June 30, 2012.

Orchard Place and Orchard Place Foundation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 OBLIGATIONS UNDER CAPITAL LEASES

The Organization leases copy machines under a master capital lease agreement. The obligation under this capital lease has been recorded in the accompanying consolidated financial statements at the present value of future minimum payments discounted at the interest rate implicit in the lease of 7.0 percent. The aggregate requirement on the obligation under capital lease for the year ended June 30, 2012 is \$74,205. This amount includes interest totaling \$9,106, resulting in a net principal balance outstanding of \$65,099. Future minimum rental payments under this capital lease are as follows: 2013: \$19,788; 2014: \$19,788; 2015: \$19,788; and 2016: \$14,841.

Assets under capital leases totaled \$83,278 at June 30, 2012 and are included in "Equipment and furniture" on the consolidated statement of financial position. Accumulated amortization on the leased equipment was \$20,820 at June 30, 2012. The amount included for amortization of leased equipment financed by the above lease for the year ended June 30, 2012 was \$16,656. The related interest expense for the year ended June 30, 2012 was \$5,119.

NOTE 9 NET ASSETS

Temporarily restricted net assets are restricted to the following purposes at June 30, 2012:

Aliber House	\$ 100,621
Educational activities	30,510
Charitable remainder trust	255,000
Capital improvements	30,413
Child Guidance Center general support	139,727
Orchard Place Campus general support	10,889
PACE Juvenile Center general support	44,573
Program general support	7,968
Recreational and summer programming	100,953
Hansell scholarship fund	65,922
Club Chris greenhouse	19,307
Substance abuse	36,087
Other programs	<u>117,965</u>
Total temporarily restricted net assets	<u>\$ 959,935</u>

Permanently restricted net assets are restricted to the following purposes at June 30, 2012:

Educational activities	\$ 283,770
Aliber House	241,026
Sexual abuse survivors' programming	10,800
Cultural enrichment activities	40,000
General support	<u>44,995</u>
Total permanently restricted net assets	<u>\$ 620,591</u>

Orchard Place and Orchard Place Foundation
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 RETIREMENT PLANS

The Organization participates in a multiemployer defined benefit plan sponsored by the United Way of Central Iowa. The plan provides defined benefits to all employees age 21 or older with one year of service in which the employee is credited with at least 1,000 hours of service. Effective December 31, 2008, the Organization elected to freeze plan benefits for all existing participants and to discontinue the admittance of new participants. Amounts charged to pension cost and contributed to the plan totaled \$681,120 for the year ended June 30, 2012.

The Organization participates in a defined contribution retirement plan sponsored by the United Way of Central Iowa. Eligible employees are allowed to make contributions of pre-tax compensation into the plan. The Organization may make matching and/or discretionary contributions, subject to certain restrictions. During the year ended June 30, 2012, the Organization made contributions to the plan totaling \$139,432.

NOTE 11 RENT EXPENSE

Effective July 1, 2004, the Child Guidance Center division of the Organization occupies a building in Des Moines, Iowa situated on land leased through a long-term ground lease ending April 30, 2058. Payments are based on 6 percent of the appraised value of the land adjusted at various points during the term of the lease and are payable monthly. Rent expense under this lease agreement was \$23,580 for the year ended June 30, 2012. Future minimum rental payments under this ground lease based on the current appraised value of the land total are as follows: 2013: \$23,580; 2014: \$23,580; 2015: \$23,580; 2016: \$23,580; 2017: \$23,580 and later years: \$962,850.

Effective July 1, 2009, the Organization is leasing office space in Des Moines, Iowa for its administrative offices. Rent is paid monthly at various rates during the term of the lease agreement, which expires June 30, 2014. The lease is subject to one five-year extension with 180 days notice prior to the completion of the original lease term. Rent expense under this lease agreement was \$65,820 for the year ended June 30, 2012. Future minimum rental payments under this office lease are as follows: 2013: \$71,305 and 2014: \$76,790.

NOTE 12 MALPRACTICE CLAIMS

The Organization is insured for protection against liability claims resulting from professional services provided or which should have been provided. Umbrella coverage limits are \$2,000,000 per occurrence and \$2,000,000 in the aggregate, with underlying professional liability coverage of \$1,000,000 per claim and \$3,000,000 in the aggregate.

Presently no claims alleging malpractice have been asserted against the Organization. However, incidents occurring through June 30, 2012 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 13 SUBSEQUENT EVENTS

The Organization and the Foundation have evaluated subsequent events through August 22, 2012, the date which the consolidated financial statements were available to be issued. There were no subsequent events requiring accrual or disclosure.

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidating Statement of Financial Position

June 30, 2012

Assets	Orchard Place	Orchard Place Foundation	Eliminations	Total
Current assets:				
Cash	\$ 3,190,223	\$ 63,862	\$ —	\$ 3,254,085
Receivables:				
Patient receivables, net	1,783,747	—	—	1,783,747
Contributions receivable, net	—	8,641	—	8,641
Other receivables	52,414	—	(52,414) (1)	—
Total receivables	1,836,161	8,641	(52,414)	1,792,388
Prepaid expenses and inventories	48,707	4,936	—	53,643
Total current assets	5,075,091	77,439	(52,414)	5,100,116
Interest in the net assets of the Community				
Foundation of Greater Des Moines	—	5,072,396	—	5,072,396
Property and equipment:				
Land and land improvements	1,732,210	—	—	1,732,210
Buildings and leasehold improvements	11,400,492	—	—	11,400,492
Equipment and furniture	1,453,327	—	—	1,453,327
Computer hardware and software	563,219	28,610	—	591,829
Vehicles	168,960	—	—	168,960
Total property and equipment	15,318,208	28,610	—	15,346,818
Accumulated depreciation and amortization	8,444,791	26,332	—	8,471,123
Net property and equipment	6,873,417	2,278	—	6,875,695
Beneficial interest in assets held by the Community				
Foundation of Greater Des Moines	—	49,397	—	49,397
Assets held in trust by others	—	255,000	—	255,000
Total assets	\$ 11,948,508	\$ 5,456,510	\$ (52,414)	\$ 17,352,604
Liabilities and Net Assets				
Current liabilities:				
Line of credit	\$ —	\$ —	\$ —	\$ —
Current maturities of capital lease obligations	15,729	—	—	15,729
Accounts payable and accrued expenses	1,177,941	60,927	(52,414) (1)	1,186,454
Gift annuity liabilities	—	16,490	—	16,490
Total current liabilities	1,193,670	77,417	(52,414)	1,218,673
Capital lease obligations	49,370	—	—	49,370
Total liabilities	1,243,040	77,417	(52,414)	1,268,043
Net assets:				
Unrestricted	10,705,468	3,798,567	—	14,504,035
Temporarily restricted	—	959,935	—	959,935
Permanently restricted	—	620,591	—	620,591
Total net assets	10,705,468	5,379,093	—	16,084,561
Commitments and contingencies				
Total liabilities and net assets	\$ 11,948,508	\$ 5,456,510	\$ (52,414)	\$ 17,352,604

Eliminating entries:

(1) To eliminate the intercompany payable and receivable balance

See accompanying notes to the consolidated financial statements.

ORCHARD PLACE AND ORCHARD PLACE FOUNDATION

Consolidating Statement of Activities

Year ended June 30, 2012

	Unrestricted			Temporarily Restricted			Temporarily Restricted	Total	Temporarily Restricted	Permanently Restricted
	Orchard Place	Orchard Place Foundation	Eliminating Entries	Total Unrestricted	Orchard Place	Orchard Place Foundation				
Operating revenue and support:										
Net patient service revenue, contracts and grants	\$ 16,153,859	\$ —	\$ —	\$ 16,153,859	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 16,153,859
Public support	1,125,807	—	—	1,125,807	—	—	—	—	—	1,125,807
Contributions, memorials, and fundraisers, net	—	197,300	—	197,300	428,570	427,433	(428,570)	(1)	427,433	629,878
Other revenue	183,332	11,214	—	194,546	—	—	—	—	—	194,546
Total operating revenue and support	17,462,998	208,514	—	17,671,512	428,570	427,433	(428,570)	—	427,433	18,104,090
Net assets released from restrictions - satisfaction of program and time restrictions	428,570	406,922	(428,570)	406,922	(428,570)	(406,922)	428,570	(1)	(406,922)	—
Total operating revenue, support, net asset transfers	17,891,568	615,436	(428,570)	18,078,434	—	20,511	—	—	20,511	18,104,090
Operating expenses:										
Program services:										
Orchard Place Campus	7,238,135	—	—	7,238,135	—	—	—	—	—	7,238,135
PACE Juvenile Center	2,260,730	—	—	2,260,730	—	—	—	—	—	2,260,730
Child Guidance Center	7,001,476	—	—	7,001,476	—	—	—	—	—	7,001,476
Orchard Place Foundation	—	558,078	(558,078)	—	—	—	—	—	—	—
Total program services	16,500,341	558,078	(558,078)	16,500,341	—	—	—	—	—	16,500,341
Administrative services	1,323,570	—	—	1,323,570	—	—	—	—	—	1,323,570
Fundraising and marketing	—	556,151	—	556,151	—	—	—	—	—	556,151
Total operating expenses	17,823,911	1,114,229	(558,078)	18,380,062	—	—	—	—	—	18,380,062
Change in net assets from operating activities	67,657	(498,793)	129,508	(301,628)	—	20,511	—	—	20,511	(275,972)
Nonoperating activities:										
Contributions from Orchard Place Foundation - restricted for property and equipment	—	—	—	—	129,508	—	(129,508)	(1)	—	—
Investment income, net	—	(45,627)	—	(45,627)	—	(7,144)	—	—	(7,144)	(52,771)
Change in the value of split interest agreements	—	(2,114)	—	(2,114)	—	9,000	—	—	9,000	6,886
Other nonoperating income, net	5,400	—	—	5,400	—	—	—	—	—	5,400
Net assets released from restrictions - property and equipment	129,508	129,508	(129,508)	129,508	(129,508)	(129,508)	129,508	(1)	(129,508)	—
Change in net assets from nonoperating activities	134,908	81,767	(129,508)	87,167	—	(127,652)	—	—	(127,652)	(40,485)
Change in net assets	202,565	(417,026)	—	(214,461)	—	(107,141)	—	—	(107,141)	(316,457)
Net assets at beginning of year	10,502,903	4,215,593	—	14,718,496	—	1,067,076	—	—	1,067,076	16,401,018
Net assets at end of year	\$ 10,705,468	\$ 3,798,567	\$ —	\$ 14,504,035	\$ —	\$ 959,935	\$ —	\$ —	\$ 959,935	\$ 16,084,561

(1) To eliminate intercompany transfers

See accompanying notes to the consolidated financial statements.

Orchard Place and Orchard Place Foundation
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

<u>Federal grantor/pass-through grantor/ pass through grant description</u>	<u>Federal CFDA number</u>	<u>Federal CFDA name</u>	<u>Federal expenditures</u>
United States Department of Agriculture			
<i>Passed through State of Iowa Department of Education</i>			
National School Breakfast, Lunch and Snack Program	10.553 and 10.555	After School Snack Program, School Breakfast Program, and National School Lunch Program	\$ 158,898
<i>Total United States Department of Agriculture</i>			<u>158,898</u>
United States Department of Justice			
<i>Passed through Iowa Criminal and Juvenile Justice Planning Division</i>			
Juvenile Accountability Block Grants - Functional Family Therapy	16.523	Juvenile Accountability Block Grants	40,698
Juvenile Accountability Block Grants - System of Care	16.523	Juvenile Accountability Block Grants	13,416
			<u>54,114</u>
Juvenile Justice and Delinquency Prevention - Allocation to the States - Functional Family Therapy	16.540	Juvenile Justice and Delinquency Prevention	66,402
<i>Total United States Department of Justice</i>			<u>120,516</u>
United States Department of Health and Human Services			
<i>Passed through State of Iowa Department of Human Services, Juvenile Court Services</i>			
Diversion and Monitoring Services	93.558	Temporary Assistance for Needy Families (TANF)	167,132
<i>Passed through Polk County Decategorization</i>			
Early Services Project	93.558	Temporary Assistance for Needy Families (TANF)	39,727
Community Sanctions	93.558	Temporary Assistance for Needy Families (TANF)	5,200
			<u>212,059</u>
<i>Passed through State of Iowa Department of Human Services</i>			
Child Care Resource and Referral	93.575	Child Care and Development Block Grant	1,087,778
<i>Passed through the Polk County Early Childhood Iowa</i>			
Early Childhood Iowa Grant	93.575	Child Care and Development Block Grant	300,000
<i>Passed through Story County Empowerment/Early Childhood Iowa</i>			
Early Childhood Iowa Grant	93.575	Child Care and Development Block Grant	16,786
<i>Passed through Boone County Empowerment/Early Childhood Iowa</i>			
Early Childhood Iowa Grant	93.575	Child Care and Development Block Grant	19,775
<i>Passed through 4 Counties for Kids Early Childhood Iowa</i>			
Early Childhood Iowa Grant	93.575	Child Care and Development Block Grant	17,183
			<u>1,441,522</u>
<i>Passed through State of Iowa Department of Human Services, Division of Mental Health and Developmental Disabilities</i>			
Trauma Informed Care Services	93.958	Block Grants for Community Mental Health Services	136,669
<i>Total United States Department of Health and Human Services</i>			<u>1,790,250</u>
Total federal expenditures			<u>\$ 2,069,664</u>

See Independent Auditor's Report and Note to Schedule of Expenditures of Federal Awards.

Orchard Place and Orchard Place Foundation
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2012

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Orchard Place and is presented on the accrual basis of accounting. The Orchard Place Foundation received no federal awards for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

DENMAN

& Company, LLP

Certified Public Accountants and Business Consultants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Orchard Place and Orchard Place Foundation
Des Moines, Iowa

We have audited the consolidated financial statements of Orchard Place and Orchard Place Foundation as of and for the year ended June 30, 2012, and have issued our report thereon dated August 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Orchard Place and Orchard Place Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Orchard Place and Orchard Place Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Orchard Place and Orchard Place Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 22, 2012

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Certified Public Accountants and Business Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

To the Board of Directors
Orchard Place and Orchard Place Foundation
Des Moines, Iowa

Compliance

We have audited Orchard Place and Orchard Place Foundation's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Orchard Place and Orchard Place Foundation's major federal programs for the year ended June 30, 2012. Orchard Place and Orchard Place Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Orchard Place and Orchard Place Foundation's management. Our responsibility is to express an opinion on Orchard Place and Orchard Place Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Orchard Place and Orchard Place Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Orchard Place and Orchard Place Foundation's compliance with those requirements.

In our opinion, Orchard Place and Orchard Place Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Orchard Place and Orchard Place Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Orchard Place and Orchard Place Foundation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Orchard Place and Orchard Place Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 22, 2012

Orchard Place and Orchard Place Foundation
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2012

SECTION I—SUMMARY OF AUDITOR'S RESULTS

Financial Statements

- (a) Type of auditor's report issued: Unqualified opinion
- (b) Internal control over financial reporting:
 - Material weakness identified? No
 - Significant deficiency identified that is not considered to be material weakness? None reported
- (c) Noncompliance material to financial statements noted? No

Federal Awards

- (d) Internal control over major programs:
 - Material weakness identified? No
 - Significant deficiency identified that is not considered to be material weakness? None reported
- (e) Type of auditor's report issued on compliance for major programs: Unqualified opinion
- (f) Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No
- (g) Identification of major programs:
CFDA #93.575 – Child Care and Development Block Grant
- (h) Dollar threshold used to distinguish between type A and type B programs: \$300,000
- (i) Auditee qualified as low-risk auditee: Yes

SECTION II—FINANCIAL STATEMENT FINDINGS

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance related to the financial statements were reported.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters regarding significant deficiencies, material weaknesses, or instances of noncompliance with federal program requirements, including questioned costs, were reported.